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INDUSTRIAL PRODUCTION FIGURES

<u>Product</u>	<u>Jan-May 1987</u>	<u>Jan-May 87 as % of 1986</u>
Electricity (b.kw.hrs)	716	104%
Petroleum (inc. gas cond.)(mil. metric tons)	258	102
Nat. Gas (b.cu.mtr)	302	106
Coal (mil. metric tons)	320	101
Steel (mil. metric tons)	67.5	100.4
Fertilizer (mil.tons)	15.2	103
Metal-cut- ting tools (bil. rubles)	1.2	99.1
Robots (1000 units)	6.1	98
Computer Technology (bil. rubles)	2.0	106
Tractors (mil. hp)	21.8	94
Paper (mil. metric tons)	2.6	99
Cement (mil. metric tons)	56.5	101
Meat (mil. metric tons)	4.5	106%
Margarine (1000 tons)	na	na

<u>Product</u>	<u>Jan-May 1987</u>	<u>Jan-May 87 as % of 1986</u>
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Watches (mils)	na	na
Radios (mils)	3.3	89
TV sets (mils)	3.5	88
Automobiles (1000s)	551	100.2

LIVESTOCK HERDS (in 1000 tons)

	<u>Jan - May 1987</u>	<u>Jan - May 1987 as a % of 1986</u>
Cattle	5024	110%
Hogs	2140	107
Sheep & Goats	152	93
Chickens	1082	103

Commentary on production figures will resume
in the August 1987 issue.

BALANCE OF TRADE WITH THE HARD CURRENCY COUNTRIES

The Soviets have just released the trade
figures for all of 1986. The difference
between 1985 and 1986 is quite striking. For
example, overall exports to the hard currency
countries were down by 4.7 billion rubles.
While exports also decreased in 1985 compared
to 1984, the drop then was only approximately
2.7 billion rubles.

US-SOVIET TRADE FIGURES

Undoubtedly most of the drop in ruble exports can be accounted for by the lower energy prices and a drop in the overall volume of energy exported. However, the drop in 1986 was probably the sharpest ever incurred by the Soviets. Exports to West Germany, for example, were down by almost 1.4 billion rubles. Equally sharp percentage drops were recorded in the Netherlands, Italy and France. In some cases, it was almost a 50% drop.

Fortunately for the Soviets, the volume of their imports also dropped. Thus overall convertible currency imports were down by about 4.6 billion rubles. However, because exports dropped more than imports, the Soviets increased their overall trade deficit by about a half billion rubles in 1986. Their trade surplus with Western Europe and Japan shrank from 3314 million rubles to just 164 million rubles. Among the countries most effected by the Soviet cutback in imports was France. West Germany also suffered among the European countries.

The most dramatic cutback in imports, of course, was Soviet grain imports. Thus Argentina, which exports primarily grain to the Soviet Union, found that its exports to the Soviet Union were cut back by over a billion rubles last year. Similarly, American exports also declined, although some of that 1.2 billion ruble reduction was non-food products.

Overall it is clear that the Soviets are very anxious to see an increase in oil prices, as well as other energy products.

ANNOUNCEMENT OF
CORPORATE SPONSOR SEMINARS

On the assumption that there will be a summit meeting sometime in October, the Russian Research Center has scheduled its annual Journalists Orientation for Monday, September 28. Details will follow in the August issue of the newsletter, but you should mark your calendar now.

We have scheduled a Corporate Seminar for Monday, October 26. The subject of the session will be joint ventures, with a look at joint ventures in both the Soviet Union and China. We will try to determine why the Chinese, while not entirely successful, have seemingly made more progress than the Soviets.

The Department of Commerce has published the trade figures for the United States and the Soviet Union. For 1986, U.S. exports to the Soviet Union dropped by almost \$1.2 billion. That drop is entirely due to the decline in agricultural exports, which fell by over \$1.4 billion. This meant that in particular the exports of crude material, non-food, non-fuel products, increased instead.

The drop in exports continues into the first quarter of 1987. The drop in agricultural exports continues. Whereas in the first quarter of 1986, the U.S. exported approximately \$250 million worth of agricultural commodities to the Soviet Union, in the first quarter of 1987, that fell to \$30 million. Thus, while in the first quarter of 1986 we had more than a five to one ratio of exports to imports, in the first quarter of 1987, the ratio was less than two to one.

The main import from the Soviet Union continues to be ammonia, although petroleum imports are also an important source of earnings for the Soviets in their exports to the United States.

CURRENCY FIGURES

Rubles Purchased per 100	Jun 3 1987	Jun 24 1987
Austrian shilling	4.96	4.96
UK pound	103.51	102.98
FRG mark	34.82	34.83
US dollar	63.87	63.89
French franc	10.43	10.43
Japanese yen	.439	.438
Italian lira	.0482	.0483
Swiss franc	41.97	41.92

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THE RUSSIAN RESEARCH CENTER takes no official stand on any economic or political trend. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article, or unless otherwise stated, with those of the editors, Marshall I. Goldman and Catherine Reed. RRC @ 1986

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BALANCE OF TRADE 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986
(Millions of Rubles)

	EXPORTS FROM THE USSR								IMPORTS TO THE USSR									
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1978	1979	1980	1981	1982	1983	1984	1985	1986
Austria	371	442	580	854	675	566	761	805	540	272	368	396	507	535	787	891	859	852
Belgium	408	533	842	747	1032	991	1198	858	627	257	286	383	450	573	611	501	581	422
Gr.Brit	836	1094	859	645	813	1185	1393	1218	1274	662	811	953	858	752	632	819	684	515
Greece	189	180	409	538	533	533	582	594	219	70	65	92	100	122	155	102	134	65
Denmark	193	301	261	252	300	290	334	271	136	46	72	80	208	64	65	115	127	131
Spain	113	152	251	274	159	300	333	235	124	93	144	152	375	166	250	307	353	173
Italy	1112	1292	2111	2484	2821	2998	3156	2468	1581	858	863	934	1002	1222	1436	1325	1325	1474
Nether-																		
lands	300	903	1027	1019	1505	1224	1612	987	576	162	243	361	458	359	489	276	313	245
Norway	59	87	49	52	93	80	129	104	52	66	51	79	96	72	102	80	73	69
Germany	1498	2218	3096	3635	4065	4067	4536	4251	2879	1969	2485	2989	2703	2913	3360	3376	3243	2968
France	840	1426	2242	2525	2228	2422	2447	2174	1541	947	1198	1510	1665	1268	1728	1777	1603	1130
Switzer-																		
land	286	314	445	331	533	510	541	384	287	225	276	403	497	411	345	410	567	456
Sweden	312	554	355	291	409	652	563	492	298	190	223	322	347	345	255	272	306	245
Japan	736	944	950	817	757	825	840	928	980	1583	1661	1773	2213	2926	2176	2054	2287	2205
SUB TOTALS	7312	10528	13568	14610	15988	16683	18469	15769	11114	7459	8781	10464	11516	11771	12429	12358	12455	10950
Sub-Balance of Trade										-147	+1747	+3104	+3094	+4217	+4254	+6111	+3314	+164
Argentina	22	25	30	31	28	26	26	62	53	309	289	1162	2372	1265	1300	1104	1230	192
Brazil	34	20	22	16	180	107	95	70	30	130	160	253	534	416	591	373	380	236
U.S.A.	253	350	151	183	155	331	306	326	313	1599	2487	1352	1662	2072	1570	2829	2376	1146
Canada	29	32	30	50	21	24	19	18	10	359	453	972	1377	1378	1278	1403	949	624
Australia	5	5	6	11	14	12	22	14	8	275	393	775	538	510	404	481	532	509
N Z	3	3	3	7	8	6	8	4	5	42	114	167	168	230	179	49	87	89
TOTAL	7658	10963	13810	14908	16394	17189	18945	16263	11533	10173	12677	15145	18167	17642	17751	18597	18009	13746
Balance of Trade										-2505	-1714	-1335	-3259	-1248	-562	+348	-1746	-2213

U.S. total exports

(F.a.s. value basis, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986	January-March-- 1986	1987
U.S.S.R. (Soviet Union)							
0 Food & live animals	1,642,161	1,194,970	2,585,083	1,728,525	318,242	245,467	30,029
1 Beverages & tobacco	2,979	954	1,264	8,732	497	231	0
2 Crude matl--inedible,not fuel	214,250	264,594	224,263	90,450	328,102	207,644	628
3 Mineral fuels, lubricants, etc	90,013	22,571	30,045	54,538	56,312	11,244	12,032
4 Oils & fats--animal & veg prod	40,565	21,507	38,872	63,927	15,470	6,664	8,202
5 Chemicals	287,846	239,532	208,219	281,634	288,373	61,345	59,749
6 Hand goods by chief material	29,261	30,035	17,555	9,597	14,159	1,057	2,949
7 Machinery & transport equip	225,698	149,754	110,253	112,079	156,329	35,486	23,791
8 Miscellaneous mand articles	59,187	76,494	66,172	71,326	68,411	12,873	12,877
9 Commodities & transactions nec	614	2,461	2,205	2,017	1,618	545	209
Total	2,592,575	2,002,872	3,283,931	2,422,826	1,247,512	582,557	150,466

U.S. IMPORTS FOR CONSUMPTION U.S. imports for consumption

(C.i.f. value basis, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986	January-March-- 1986	1987
U.S.S.R. (Soviet Union)							
0 Food & live animals	5,413	18,054	17,415	12,866	3,001	746	290
1 Beverages & tobacco	11,000	12,923	9,997	12,249	15,351	2,999	3,658
2 Crude matl--inedible,not fuel	10,049	12,075	19,353	15,875	37,851	7,882	17,550
3 Mineral fuels, lubricants, etc	10,946	59,158	202,563	106,076	86,831	0	15,269
4 Oils & fats--animal & veg prod	131,374	161,121	235,014	216,833	185,521	63,152	32,355
5 Chemicals	63,349	91,304	107,794	64,906	105,565	24,157	26,002
6 Hand goods by chief material	1,624	3,750	2,874	4,648	5,028	1,103	742
7 Machinery & transport equip	9,156	6,381	4,566	3,515	4,474	576	891
8 Miscellaneous mand articles	5,277	2,341	2,494	3,689	157,766	657	547
9 Commodities & transactions nec	248,195	367,107	602,081	440,701	601,396	101,280	97,304

U.S. total exports

(F.o.b. value basis, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986	January-March--	1987
U.S.S.R. (Soviet Union)							
0 Agricultural	1,855,415	1,457,101	2,816,816	1,864,358	647,452	455,712	38,231
1 Non-agricultural	737,160	545,771	467,115	558,468	600,060	126,846	112,235
Total	2,592,575	2,002,872	3,283,931	2,422,826	1,247,512	582,557	150,466

U.S. IMPORTS FOR *** CONSUMPTION ***
U.S. imports for consumption

(C.I.f. value basis, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986	January-March--	1987
U.S.S.R. (Soviet Union)							
0 Agricultural	11,192	10,714	11,313	8,753	16,885	3,454	6,276
1 Non-agricultural	237,003	356,394	590,769	431,948	584,511	97,825	91,027
Total	248,195	367,107	602,081	440,701	601,396	101,280	97,304

Why glasnost is a Catch 22

Gorbachev and the Soviets ponder the perils of major economic reform

By Marshall I. Goldman

It is not only Mikhail S. Gorbachev who has to make some tough decisions about the course of his economic reforms. It is also the Soviet people. For Gorbachev, if he does not push the changes hard enough, he will have nothing to show for his efforts; if he pushes too hard, he risks stirring up the kinds of hostility that could assure not only the failure of his reforms, but his ouster from office as well.

The choices for the Soviet people are not much easier. If they want real improvement in their living standards, they will have to commit themselves to the reforms. But even if everyone decides to cooperate, there is no guarantee that the reforms will succeed, which could make support for the reforms dangerous, particularly if Gorbachev should lose control.

Inevitably, this realization has a dampening effect on those who are considering whether to put their necks out and respond to Gorbachev's call for a show of initiative on behalf of the reforms. Who will protect them if Gorbachev should be ousted? So why take a chance? Clearly, the safest course of action is to hunker down and hope no one will notice. Yet the more there are who take that attitude, the more likely it is that Gorbachev will fail.

Gorbachev recognizes the dangers posed by such passivity. This helps explain why he is now becoming highly sensitive to those in the West who criticize his schemes. He is particularly upset when some argue that, as bold as he has been, he has not gone far enough to make a real difference. As Gorbachev put it earlier this month, "Look with what partiality, with what a fine-tooth comb everything being done in our country is being studied in the West. Various Sovietology centers have been assigned to study" our restructuring (*perestroika*). "They are seeking to show *perestroika* in our country is a half measure, that it is not revolutionary enough, not effective enough. They want to sow doubt about the practicality of our plans."

Gorbachev is correct when he argues that many are skeptical about how successful his plan will be, but wrong when he asserts that criticism is intended to sabotage his efforts. Many agree that what he is attempting is imaginative, daring and certainly a move in the right direction. But he must go further because, based on the results so far, he has not been able to generate the support and

participation he needs from either the Soviet bureaucracy or the public.

For example, Soviet authorities decreed in 1986 that 70 enterprises and 20 ministries could begin to import and export on their own. This had the effect of ending the monopoly of the Ministry of Foreign Trade over exports and imports — potentially a radical change. So far, however, very few of those authorized have taken advantage of this opportunity. When someone actually begins to inquire about what has to be done to import or export without dealing through the Ministry of Foreign Trade, they inevitably are asked, as was the director of a factory in Volgograd, "Why do you have to take such a burden upon yourself?"

The response to the announcement that joint ventures with foreign partners could be established in the Soviet Union has been equally tepid. Given all the interest that has been expressed, that is surprising. After all, hundreds of letters of intent have been signed by Western businessmen with their Soviet counterparts. It turns out, however, that most of those letters of intent were signed by Western businessmen who were told that, if they did not sign such letters, they would be unable to export anything more to the Soviet Union. Since the letters of intent are not legally binding, almost everyone pressured signed them.

However, except for two French banks (Credit Lyonnais and Banque de l'Union Europeenne), Burda International, a West German publisher of fashion magazines, and some Finnish hotel operators, there is not much else to show. The legal questions involved are so complicated, and there is always the danger that anyone authorizing such an understanding may someday be accused of having committed a petty bourgeois act. No wonder Soviet bureaucrats are hesitant about being part of such a far-reaching decision.

The contrast with the introduction of joint ventures in China is instructive. While the ideological implications of joint ventures in China were not less laden with possible recrimination, Chinese authorities moved with much greater speed, and, in a short time, there were thousands of officially sanctioned foreign and international joint ventures on Chinese territory, some of which are 100 percent owned by foreigners.

The response to the Soviet law authorizing private business has also been timid. Admittedly, there is considerably more enthusiasm in some of the non-Slavic republics, such as Uzbekistan, but in the Slavic parts of the country, interest is tempered, to say the least. In Moscow, for example, out of 8 million residents, only 2,000 new applicants have come forth to register to open up their own businesses. Again, the response was much greater and faster in China.

Finally, Gorbachev's effort to generate more interest among the peasants in working harder and earning more for their efforts has had only limited success at best. Gorbachev decreed that Soviet farms could sell up to 30 percent of what they produced in cooperative stores or in the collective farm markets, where prices are considerably higher than those that usually prevail in the official state retail stores. Thus far, only 2 percent of the produce grown by the farms has been sold this way. Again, the meagerness of the response is primarily due to the fear that someday what is officially applauded today may again come to be regarded as price gouging and an act against the people.

What is so disheartening is that even if he had wholehearted support from the Soviet people for his proposals, that would still not produce the radical transformation Gorbachev is seeking. As bold as his already announced steps may seem to some, they are not forthcoming enough. Ultimately he will have to allow for more flexible price changes and the bankruptcy of some factory operations that are unprofitable, even if that means unemployment. The clear implication is that if Gorbachev cannot generate enough support for the relatively modest reforms he has decreed so far, he will have an even more difficult time in enlisting enthusiasm for the even more far-reaching changes that lie ahead.

So far, the Soviet Union and the Soviet people appear to be too resistant and too fearful about the eventual consequences of backing changes. Unfortunately, this hesitancy all but guarantees that Gorbachev will not succeed.

Marshall I. Goldman, professor of Economics at Wellesley College and associate director of Harvard University's Russian Research Center, is the author of the just published "Gorbachev's Challenge: Economic Reform in the Age of High Technology."

Even the Czar Faced Anchor-Draggers

By Marshall I. Goldman

WHAT a difference a year makes! A year ago in Leningrad, Soviet economists bitterly defended the economic status quo and criticized a foreign visitor who dared to suggest that radical reform might be necessary. Some of their counterparts in Moscow had begun to share foreigners' doubts, but in outlying areas the word had yet to filter down that now "criticism" was in and "defensiveness" was out.

Today, economists in Leningrad are almost as willing to acknowledge the need for serious change as their Moscow comrades. In fact, most of their defensiveness is gone. When it comes to arms control and the specifics of economic reform, one can still have a good argument. But it's hard to have an all-out confrontation. For years, debating with Soviet economists often seemed like talking to stone walls; maybe those walls had ears, after all.

In nationally circulated journals, Soviet economists today openly espouse views that as recently as 1983 could appear only in classified form. Some want to do away completely with central planning and finance. Others argue that all controls over imports and exports should be abolished and that the ruble be made freely convertible into dollars, other Western currencies and the yen.

Whether or not there should be any control over prices is as hotly argued as how high the level of unemployment should be and how many workers may be hired by a private or cooperative business. Administrative controls are bad, profits are good — and all of this is to be done to make socialism work better.

Russians who regard all this as the abandonment of Communism are keeping a low profile, at least for now. Yet proposed reforms and Mikhail S. Gorbachev's efforts to push them through are barely visible. What is the problem?

Marshall I. Goldman, professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard, visited the Soviet Union this month.

The problem is that the interest of the bureaucracy and the deeply-rooted planning system conflict with Mr. Gorbachev's far-reaching reforms. Efforts to modernize Russia are not new, and Mr. Gorbachev is not alone in encountering resistance.

As one observer put it: "The Czar himself is powerless against the bu-

reaucratic body: He can send any one of them to Siberia, but he cannot govern without them or against their will. On every decree of his they have a tacit veto, by merely refraining from carrying it into effect."

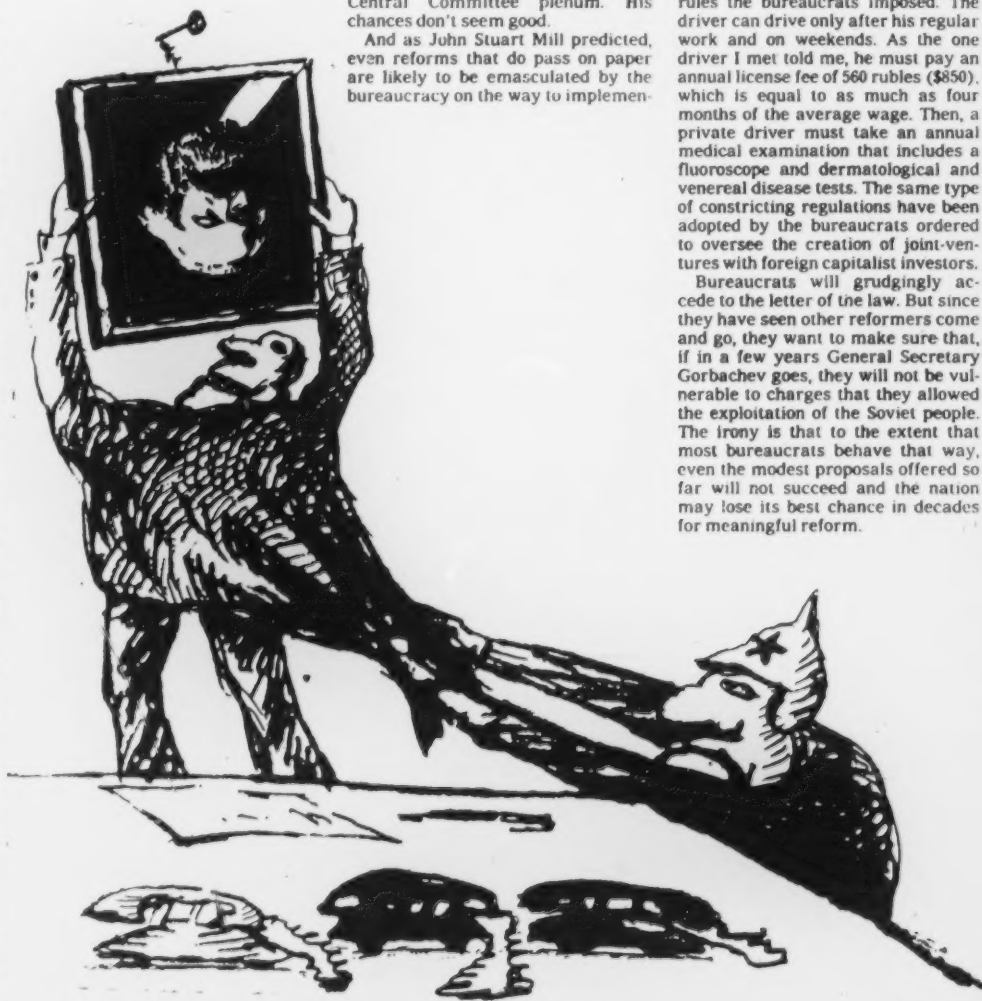
That was written by John Stuart Mill in 1859. It describes what Mr. Gorbachev faces as he tries to persuade the Politburo to adopt his economic reform package at this week's Central Committee plenum. His chances don't seem good.

And as John Stuart Mill predicted, even reforms that do pass on paper are likely to be emasculated by the bureaucracy on the way to implemen-

tation. As of May 1, private business — for example, operating a private cab — has been legal, even encouraged. But not one Government taxi operator out of the 20 I questioned in Moscow and Leningrad thought much would come out of this new law. One said, "There are virtually no private taxi drivers, and I've met the one fool who has decided to try."

Why the skepticism? Look at the rules the bureaucrats imposed. The driver can drive only after his regular work and on weekends. As the one driver I met told me, he must pay an annual license fee of 560 rubles (\$850), which is equal to as much as four months of the average wage. Then, a private driver must take an annual medical examination that includes a fluoroscope and dermatological and venereal disease tests. The same type of constricting regulations have been adopted by the bureaucrats ordered to oversee the creation of joint-ventures with foreign capitalist investors.

Bureaucrats will grudgingly accede to the letter of the law. But since they have seen other reformers come and go, they want to make sure that, if in a few years General Secretary Gorbachev goes, they will not be vulnerable to charges that they allowed the exploitation of the Soviet people. The irony is that to the extent that most bureaucrats behave that way, even the modest proposals offered so far will not succeed and the nation may lose its best chance in decades for meaningful reform.



Jerry Kolacz